



1997 MICHIGAN

Income Tax Returns and Homestead Property Tax Credit Claim

This booklet contains the following forms and instructions:

- **MI-1040**
Michigan Income Tax Return
- **MI-1040CR**
Michigan Homestead Property Tax Credit Claim
- **Form 3174**
Direct Deposit of Refund
- **Schedule NR**
Michigan Nonresident and Part-Year Resident
- **Schedule CT**
Michigan College Tuition and Fees Credit
- **MI-1040EZ**
Michigan Income Tax Easy Return
- **C-3001**
Individual Purchase Use Tax Return
- Intangibles Tax Information



**For a fast refund,
file electronically!**

**See your tax
practitioner or file
on-line from your
home computer.**

STATE OF MICHIGAN



JOHN ENGLER, Governor

DEPARTMENT OF TREASURY

TREASURY BUILDING, P.O. BOX 15128, LANSING, MICHIGAN 48901
DOUGLAS B. ROBERTS, State Treasurer

January 1998

Dear Taxpayer:

Enclosed are the forms needed to file your 1997 Michigan income tax return and property tax credit claim. Please use your mailing label (if it is correct) when filing your return. This will help in the processing of your return. It is important to remember that the earlier you file your return, the faster you will receive your refund.

The federal/state electronic filing program will enable you to file both federal and state returns electronically through your tax preparer or on-line from your home computer (see page 2). You will receive your refund faster because electronically filed returns require less time to process.

We no longer print your **Social Security number** on the mailing label. Instead, for security reasons, a 10-digit code number appears on the label.

Please be sure to check and see if you have a liability for the following other taxes: use tax on the purchase of goods from outside Michigan (see page 40); intangibles tax on stocks, bonds and land contracts (see page 39); or single business tax on business income (see page 39).

Please go over your return a second time and verify that the information entered is correct. A list of common errors that cause processing delays appears on page 3 of this booklet.

Sincerely,

Douglas B. Roberts
State Treasurer

P.S. **A look ahead:** Tax changes for next year include an increase in the personal exemption, a new deduction for children under the age of 12 years, and an increase in the college tuition credit limit. See page 42 for details.

IMPORTANT NEWS FOR 1997

Mailing Labels

Over 867,000 taxpayers checked the box on their 1996 return indicating they did not need a 1997 instruction booklet sent to them. They will receive their peel-off mailing label on a postcard this year. This will save Michigan taxpayers over \$86,000 in printing and postage costs.

If you do not need a tax booklet next year, check the box at the bottom of your 1997 MI-1040 or MI-1040EZ.

We no longer print your Social Security number on the mailing label. Instead, for security reasons, a 10-digit code number appears on the label.

How to Use Your Mailing Label

- Review your name and address. If the information is correct, place the label on the first page of your tax return.
- If any of the information on the label is incorrect, do not use the label. Write the correct information on the return.
- If you are a surviving spouse and the deceased taxpayer's name is on the label, do not use the label. Write the correct information on the return.
- If you use a tax preparer, take this book to your preparer and ask him or her to use your label on your return. Using your label will help shorten the processing time of your return.
- Do not use your mailing label as a return address label on your envelope. This will delay our receipt of your return.

Direct Deposit of Refunds

Beginning with tax year 1997, you may request that your refund be deposited directly into your account at a financial institution instead of receiving a check. See pages 29 and 30 for more information.

New Web Site

Visit our new Treasury web site on the Internet at:
www.treas.state.mi.us

Personal Exemption Allowance Increases

For tax year 1997, the personal exemption allowance is \$2,500.

Electronic Filing Program

Starting January 16, 1998, you may electronically file both federal and state returns. Check to see if your tax preparer provides this service. You can also file federal and state returns electronically from your home computer. Filing electronically will shorten the processing time of your return. Call the Michigan Tele-Help System for more information (see page 4).

For tax year 1997, Michigan returns filed electronically may be **refund or tax due returns** with or without a property tax credit and/or college tuition credit (Schedule CT). New for 1997, home heating credit claims may be filed electronically. Payments for tax due returns must be mailed with the *Michigan Payment Voucher for Electronic Filing* (form MI-1040-V). Direct deposit of refunds is also available for 1997.

Nonrefundable College Tuition and Fees Credit

Any Michigan resident with adjusted gross income (AGI) of \$200,000 or less may claim an income tax credit for undergraduate tuition and fees paid on behalf of the taxpayer or any other student. Residents may claim the credit for 1997 only if the school has certified that tuition will not increase by more than 3 percent for the 1997-98 academic year. Refer to the back of the 1997 *Michigan College Tuition and Fees Credit (Schedule CT)* to see if you qualify.

Pensions

Individuals with income from a private nongovernmental pension or a qualifying individual retirement account (IRA) may subtract larger amounts than in previous years. For tax year 1997, pension benefits included in adjusted gross income (AGI) from a private pension system or an IRA are deductible to a maximum of \$32,880 on a single return or \$65,760 on a joint return.

Senior citizens age 65 or older may also deduct benefits received from a retirement annuity policy if the payments are made for life to a senior citizen or to the surviving spouse of a senior citizen. Qualifying annuity amounts must be added to any private pension amounts, and the total is subject to the maximum limits shown above. See line 50 instructions on page 9 and Example B on page 11.

Senior citizens age 65 or older may deduct part of their interest, dividends and capital gains that are included in AGI. For 1997, the dividend, interest and capital gains deduction is limited to a maximum of \$3,500 on a single return or \$7,000 on a joint return, and must be reduced by the pension subtraction.

Medical Care Savings Account

A medical care savings account credit is now available on your federal return. Therefore, you can no longer take this credit on your Michigan return.

Homestead Property Tax Exemption Adjustment

If, in 1997, you received a corrected or supplemental tax bill or refund of property taxes paid from a previous year as a result of an adjustment to your homestead property tax exemption, you must adjust your 1997 property tax amount. Interest received or paid on the adjusted property taxes may not be claimed on line 9 of the property tax credit claim (forms MI-1040CR and MI-1040CR-2).

Property Tax Credits/Refunds - A Reminder From the Internal Revenue Service (IRS)

Michigan homestead property tax credit and homestead exemption refunds received in 1997 may be taxable on your 1997 federal income tax return. These are refunds of a portion of the property taxes paid. If you claimed an itemized deduction for property taxes on your 1996 federal income tax return and then received a refund in 1997 from the state or your local unit of government for a portion of those taxes, you must include that refund as income on your 1997 federal income tax return. If you have questions about the taxability (for federal tax purposes) of these refunds, please call the IRS at 1-800-829-1040.

Home Heating Credit

For 1997, you will not have the option of applying the home heating credit (MI-1040CR-7) to income tax due. If you are filing a Michigan income tax form (MI-1040), do not attach your MI-1040CR-7 to it. The deadline for filing your 1997 home heating credit is September 30, 1998. Home heating credits received after September 30, 1998 will be denied.

No-Form Option Available for Tax Year 1998

The no-form option program is again available for tax year 1998. It gives eligible taxpayers the option of not filing an annual Michigan income tax return. Additional information is available by calling the Michigan Tele-Help System (see page 4).

If you chose the no-form option for 1997, you will receive a letter explaining the program by January 31, 1998.

For Help -- 1-800-487-7000

Call this number to talk to a department representative for answers to your questions about Michigan income tax and the various credit forms. Staff is available to take your call between 8 a.m. and 5 p.m. (Mon. - Fri.) year round. During tax processing season (February - April), staff is available between 7 a.m. and 7 p.m. (Mon. - Fri.). Individuals answering these toll-free lines will answer specific questions on the preparation of the income tax forms and various credit forms. **Refund status information will not be given at this number (see below).**

Deaf, hearing or speech impaired persons using a Text Telephone for the Deaf (TTY) should call 517-373-9419 for assistance. This number is reserved for persons using a TTY. Other persons calling this number will be directed to call the toll-free phone number. Deaf, hearing or speech impaired persons may also call the Michigan Relay Center at 1-800-649-3777.

If you need help completing your return, contact your local senior citizen center or community service agency to find out if there is a volunteer tax assistance program available. You may also want to contact your local library to see if it has a copy of the tax preparation video that was distributed to libraries throughout the state.

To Check On Your 1997 Refund -- 1-800-827-4000

Allow at least eight weeks for the processing of your 1997 refund before calling the Computerized Refund Information System (CRIS). You must have the primary filer's Social Security number and adjusted gross income or household income to get refund information. This number may be called 24 hours a day. CRIS will allow you to check on your refund once every seven days.

If your return is selected for review, CRIS will tell you to allow an additional eight weeks for the processing of your refund.

Returns for years prior to 1997 are processed after the 1997 returns are completed.

How To Get Forms --

 1-800-FORM-2-ME (367-6263)

This number may be called 24 hours a day. Tell our computerized forms message system what you need and we will mail your forms. Forms are also available at all Treasury offices listed on page 4. Commonly used forms are available at Michigan Secretary of State offices, many libraries, post offices and financial institutions.

Michigan Tax Forms By Fax --

 810-754-0362

Call from a fax phone to have 1997 Michigan tax forms sent to your fax machine 24 hours a day/365 days a year.

A Note About Debts

Michigan law requires that any money owed to the state and other agencies be deducted from your refund or credit before it is issued. This includes money owed for past due taxes, school loans, child support due the Friend of the Court, an IRS levy, money due a state agency, a court-ordered garnishment or other court orders. Taxpayers who are married, filing jointly, may receive a computer-generated *Income Allocation to Non-Obligated Spouse C-4297*. Completing and filing this form may limit the portion of the refund that can be applied to a liability. If Treasury applies all or part of your refund to any of these debts, you will receive a letter of explanation.

When You Have Finished

Please review your return for the following **common errors** that can delay your refund.

- using a label with incorrect information
- illegible writing
- transposing numbers in the Social Security number
- computing nonrefundable tax credits incorrectly
- omitting the community foundation code
- reporting the incorrect amount of estimated tax payments
- failing to attach federal schedules to verify losses and expenses (see Table 1 on page 5)
- omitting the taxable value of your homestead
- omitting the school district code
- failing to report total household income from all sources, both taxable and nontaxable, on the property tax credit claim
- claiming an exemption for both totally and permanently disabled and for age 65 or older
- leaving the Family Independence Program (FIP) line blank (MI-1040CR, line 25), entering the wrong amount of FIP assistance, or entering the household income subtotal on this line
- entering figures on the wrong lines
- computation errors.

Before you mail your return, review it carefully and make sure it is complete.

Where To Mail Your Return

If you are due a **refund**, mail your return to:

**Michigan Department of Treasury
Lansing, MI 48956**

If you mail your 1997 return in the same envelope with a return for years prior to 1997, your 1997 refund will be delayed. To receive your 1997 refund faster, mail your 1997 return in a separate envelope.

If you **owe tax**, mail your return to:

**Michigan Department of Treasury
Lansing, MI 48929**

Make checks payable to "State of Michigan" and write your Social Security number and the words "1997 income tax" on the front of your check. Do not staple your check to the return.

Michigan Tele-Help System

 **1-800-827-4000**

Tele-Help is an automated system of informative recordings about income tax and property tax credit topics.

Call 1-800-827-4000 anytime and listen for the Tele-Help instructions. This number operates 24 hours every day.

Tele-Help code numbers and topics

General Income Tax Information

- 111 Where to go for help
- 121 To get a copy of your return
- 131 Refund offsets
- 141 Who must file an income tax return and how to file
- 151 Other:
 - Deceased taxpayers
 - Residency
 - Requirements for dependents, minors and students
- 161 Repayments of income reported in a prior year (Claim of Right)
- 171 Electronic filing
- 181 Home electronic filing
- 191 No-Form option for tax years 1997 and after
- 192 Direct deposit

MI-1040

- 211 Amended returns - form MI-1040
 - Prior year returns
- 221 Estimated tax payments
- 231 Additions and subtractions from income
- 241 Capital gains and losses
- 251 Public Contributions Credit
- 261 Community Foundations Credit
- 271 Other:
 - Deferred compensation
 - Tax status of U.S. obligations
 - Extensions
 - Distributions from IRAs
 - Contributions to IRAs
- 281 Homeless Shelter/Food Bank Credit
- 292 College Tuition and Fees Credit
- 293 Renaissance Zones

Credit Information

- 311 Homestead Property Tax Credit
- 321 List of special situations for property tax credits
- 331 Home Heating Credit
- 341 Senior Citizen Prescription Drug Credit
- 351 Difference between household income and adjusted gross income
- 361 Farmland Preservation Credit

Miscellaneous Information

- 411 Homestead Exemption Affidavits

Treasury Offices

The Treasury field offices no longer prepare tax returns. If you need help, please call the Lansing office. Forms are available at all Treasury field offices.

Main Office:

LANSING, 48922
Treasury Building
430 W. Allegan St.
1-800-827-4000 (refunds)
1-800-487-7000 (information)

Other Offices:

DETROIT, 48226
State of Michigan Plaza Building
1200 6th St.

ESCANABA, 49829
State Office Building, Room 7
305 Ludington St.
(open 8 - 12 only)

FLINT, 48502
State Office Building, 7th Floor
125 E. Union St.
(closed 12 - 1)

GRAND RAPIDS, 49503
State Office Building, 3rd Floor
350 Ottawa St., NW

KALAMAZOO, 49005-0286
535 S. Burdick St., Ste. 197
(closed 12 - 1)

PONTIAC, 48342
100 N. Saginaw St.

SAGINAW, 48607
State Office Building, 4th Floor
411-I E. Genesee St.
(open 8 - 12 only)

TRAVERSE CITY, 49684
701 S. Elmwood Ave., Ste. 1
(open 8 - 12 only)

Deaf, hearing or speech impaired persons may call 517-373-9419 (TTY) or the Michigan Relay Center at 1-800-649-3777.

Important Information for All Income Tax Filers

This booklet is only intended as a guide to help you complete your return; it does not take the place of the law.

The index for this booklet is inside the back cover.

Always complete your federal tax return before your Michigan return. You may need to file a Michigan return even if you do not need to file a federal return.

ADJUSTED GROSS INCOME (AGI)

Throughout this book, we refer to adjusted gross income as AGI. Copy your AGI directly from your U.S. 1040 line 32, U.S. 1040A line 16, or U.S. 1040EZ line 4.

WHO MUST FILE A RETURN

File a return if you owe tax, are due a refund or your AGI exceeds your personal exemptions. You should also file a Michigan return if you file a federal return, even if you do not owe Michigan tax. This will prevent unnecessary correspondence from Treasury. See pages 12 and 32 for nonresident and part-year resident information.

If your parents (or someone else) can claim you as a dependent on their return and your AGI is \$1,500 or less if single, or \$3,000 or less if married filing jointly, you do not need to file a return unless you are claiming a refund of withholding. If single, and your AGI is over \$1,500; or if married filing jointly, and your AGI is over \$3,000 you must file a return. See the instructions on the back of form MI-1040 or form MI-1040EZ, line 6.

Important: If your income subject to tax (line 14) was less than your personal exemption allowance (line 15) and Michigan income tax was withheld from your earnings, you must file a return to claim a refund of the tax withheld.

WHO MUST FILE A JOINT RETURN

File a joint Michigan return if you filed a joint federal return. If you filed separate federal returns, you may file separate or joint Michigan returns. You may file a joint return only with your spouse, not with a parent, sibling or other relative.

Note: You may file as "single" only if you are widowed, not married, are divorced or are separated under court order.

TAX CREDITS

A tax credit may reduce your tax or increase your refund. Be sure to claim all the credits for which you qualify. You may be able to claim credits for each of the following:

- city income tax (pages 6 and 7)
- contributions made to some public institutions and community foundations (page 7)
- cash contributions to homeless shelters/food banks (page 7)
- income tax paid to government units outside Michigan (pages 7 and 8)
- college tuition and fees (page 8)
- homestead property taxes and/or rent paid (pages 14 and 15)
- farmland preservation (use form MI-1040CR-5).

ROUNDING DOLLAR AMOUNTS

Round down all amounts less than 50 cents. Round up all amounts of 50 through 99 cents. Do not enter cents.

WHEN TO FILE YOUR RETURN

Your return must be postmarked no later than April 15, 1998. Payment must be included with your return. Make your check payable to "State of Michigan" and be sure to write your Social Security number(s) and the words "1997 income tax" on the front of the check.

If you cannot file before the due date and you owe tax, you may file an *Application for Extension of Time to File Michigan Tax Returns* with your payment. See page 12.

PENALTY AND INTEREST ADDED FOR FILING OR PAYING LATE

If you file or pay late, Treasury will add a penalty of 5 percent of the tax due every month until you file and pay. Maximum late penalty is 50 percent of the balance of tax due. Minimum late penalty is \$10 for the first month. If you pay late, you must add penalty and interest to the amount due. The interest rate through June 30, 1998 is 9.5 percent. For interest rates after June 30, 1998, call 1-800-487-7000.

TABLE 1 Attach These Federal Schedules

Taxpayers who file any of the following schedules or forms with their federal return must attach a copy to their Michigan income tax return:

Schedule B	Interest and Dividend Income (if over \$5,000)
Schedule C or C-EZ	Profit or Loss From Business
Schedules D & 4797	Capital and Ordinary Gains and Losses
Schedule E	Supplemental Income and Loss
Schedule F	Farm Income and Expenses
Form 2555	Foreign Earned Income
Form 3903 or 3903-F	Moving Expenses
Form 6198	Computation of Deductible Loss From Activity Described in IRC Section 465(c)
Form 8829	Expenses for Business Use of Your Home
Schedule R or 1040A, Schedule 3	Credit for the Elderly or Totally and Permanently Disabled
Form 4868	Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns

Make sure the above schedules and forms report the location of the business activity or the location of any real property involved. Schedules showing rental of personal property must report where the property is being used. If you do not attach these schedules, processing of your return may be delayed.

Line-by-Line Instructions for Form MI-1040

Lines not listed are explained on the form.

PART 1: IDENTIFICATION

Line 1: Only married filers may file joint returns.

Lines 2 & 3: Write your Social Security number(s) here even if using your label.

Line 5: State Campaign Fund. These funds are disbursed only to candidates for governor who agree to limit campaign spending and meet the campaign fund requirements, regardless of political party. Choosing "yes" will not raise your tax or reduce your refund.

Line 6: Only farmers, fishermen and seafarers should check this box (see page 12 for estimate filing information).

Line 7: Filing Status. Check the box to identify your filing status. If you file a joint federal return, you must file a joint Michigan return. Married couples who file separate federal returns may file a separate or joint Michigan return. If you are also claiming a homestead property tax credit or other tax credit, it may be easier to file a joint Michigan return because total (joint) household income is the basis for computing these credits. If your status is married, filing separately (box c), write your spouse's full name in the space provided and be sure you write his or her Social Security number on line 3.

Line 8: Residency. Check the box that describes your Michigan residency for 1997. If you and your spouse had a different residency status during the year, check a box for each of you. Both part-year residents and nonresidents must file Schedule NR. If you were a part-year resident, list the dates you were a Michigan resident and complete Schedule NR. (For definition of residency, see page 12.)

Line 9: Exemptions. Use this line to compute the exemption amount for your allowable federal exemptions plus your Michigan special exemptions.

a) Enter the number of exemptions you claimed on your U.S. 1040 or 1040A, line 6d. These exemptions are for you, your spouse (if filing joint) and your dependents.

b) Multiply the number of exemptions on line 9a by your exemption allowance of \$2,500 and enter that amount.

Special exemptions. Check only the boxes that apply to you or your spouse as of December 31, 1997.

c and d) Age 65 or older. You are considered age 65 the day before your 65th birthday. If you claim this exemption, you may not claim an exemption as totally and permanently disabled.

e and f) Deaf. You qualify for this exemption if the primary way you receive messages is through a sense other than hearing (like lip reading or sign language).

g and h) Disabled or blind. You qualify for this exemption if you are blind, hemiplegic, paraplegic, quadriplegic or totally and permanently disabled. Blind means your better eye permanently has 20/200 vision or less with corrective lenses, or your peripheral field of vision is 20 degrees or less. Totally and permanently disabled means disabled as defined under Social Security Guidelines 42 USC 416. If you are age

65 or older, you may not claim an exemption as totally and permanently disabled.

i) Unemployment compensation. Check this box if 50 percent or more of your combined AGI (MI-1040, line 10) is from unemployment compensation.

L and m) If your parents (or someone else) can claim you as a dependent on their return, check the box and complete the worksheet on the back of the MI-1040.

PART 2: TAX COMPUTATION (INCOME, TAX CREDITS AND REFUND OR TAX DUE)

Line 10: Adjusted Gross Income (AGI). Enter your AGI from your federal return. This is the amount from your U.S. 1040, line 32; U.S. 1040A, line 16; or U.S. 1040EZ, line 4. You must attach copies of federal schedules that apply to you as explained in Table 1 on page 5. See Parts 3 and 4 for Michigan adjustments to federal AGI.

TABLE 2: CITY INCOME TAX CREDIT WORKSHEET

TABLE 2: CITY INCOME TAX CREDIT WORKSHEET				
To Determine Net City Income Tax				
Step 1	Add:			
	• City income tax withheld from wages in 1997 (as shown in box 21 on your W-2s).....		.00	
	• Amount of tax paid with a Michigan city income tax return filed in 1997 (do <u>not</u> include penalty and interest).....	+	.00	
	• Estimated city income tax payments paid in 1997.....	+	.00	
	Subtotal		.00	
Subtract:				
• Any city income tax refunds received in 1997.....	-	.00		
Total net city income tax paid. Carry to line 18a	=	.00		
To Determine Your City Income Tax Credit				
If Your Total Net City Income Tax Paid (MI-1040, line 18a) is :				
	\$100 or less	\$101 through \$150	\$151 or more	
Step 2	Net city income tax paid.....	.00	Net city income tax paid.....	.00
	x	.20	Subtract.....	- \$100.00
	CREDIT. Carry to line 18b.....	.00		.00
			Multiply.....	x .10
				.00
			Add.....	+ 20.00
	Credit cannot be more than \$10,000.00	CREDIT. Carry to line 18b.....	.00	
		CREDIT. Carry to line 18b.....	.00	

Line 17: Tax. Multiply the amount on line 16 by 4.4 percent (.044).

Fiscal-Year Taxpayers (those with a tax year other than the calendar year), use the 4.4 percent tax rate. Attach a statement indicating your fiscal year dates to your MI-1040 return.

Line 18: City Income Tax Credit.

Everyone subject to Michigan income tax is allowed partial credit for income tax paid to Michigan cities. Use Table 2 on page 6 to compute the credit. Net city income tax paid in 1997 is the total of:

- city income tax withheld from wages in 1997 as reported on your W-2;
- amount of tax paid with a Michigan city income tax return filed in 1997 (do not include penalty and interest);
- estimated city income tax payments paid in 1997;
- less any city income tax refund received in 1997.

18a: Enter your net city income tax paid in 1997.

18b: Enter your city income tax credit from Table 2.

Note: Treasury may request receipts for any credit claimed on lines 19, 20 and 21. If Treasury requests receipts, cancelled checks may not be sufficient documentation.

Line 19: Public Contribution Credit.

A partial income tax credit is allowed when you donate to a qualifying Michigan public institution. The credit is based on cash donated or the value of the item(s) donated. Values claimed must be supported by written appraisals, trade journals, etc., or by an itemized receipt.

Gifts qualify for credit if given to:

- Michigan colleges or universities and their fund raising organizations
- the Michigan Colleges Foundation
- the State Art in Public Places Fund
- the State of Michigan Museum
- Michigan public libraries
- Michigan public broadcasting stations
- a Michigan municipality or a nonprofit corporation affiliated with a Michigan municipality and an art institute in that municipality to benefit the art institute (art institutes are those whose primary function is the displaying and teaching of visual arts)
- the State of Michigan for the preservation of state archives.

Artwork created by the taxpayer also qualifies for credit if given to:

- the State of Michigan for display in a public place
- a Michigan municipality for public display.

Artwork is an original visual creation of quality in any size or shape, in any media, using any materials. Its fair market value must be determined by an independent appraiser when donated.

Line 19a: Enter the total amount of public contributions.

Line 19b: Enter the allowable credit which is the **smaller** of:

- 50 percent of the contribution reported on line 19a, or
- \$100 (\$200 for a joint return).

Line 20: Community Foundations Credit.

A partial income tax credit is allowed when you donate to an endowment fund of one of the certified community foundations or component funds listed on page 19. Enter the code number in the box on line 20. You must enter the proper code to receive credit.

Line 20a: Enter the total contribution amount.

Line 20b: Enter the allowable credit which is the **smaller** of:

- 50 percent of the contribution reported on line 20a, or
- \$100 (\$200 for a joint return).

Line 21: Homeless Shelter/Food Bank Credit.

A partial income tax credit is allowed when a **cash donation** is made to a qualifying shelter for homeless persons, a food bank, a food kitchen, or other entity whose **primary** purpose is to provide overnight accommodation, food, or meals to indigent persons. Donations to organizations such as secondhand stores and churches, which provide other services or shelter and food as a secondary purpose do not qualify for this credit.

Contributions qualifying for this credit must be all of the following:

- cash;
- made to organizations located in **Michigan** whose **primary** purpose is to provide food and shelter to indigent persons; and
- deductible as a charitable contribution under the Internal Revenue Code (IRC).

Line 21a: Enter the total amount of cash contributions.

Line 21b: Enter the credit which is the **smaller** of:

- 50 percent of the contribution reported on line 21a, or
- \$100 (\$200 for a joint return).

Line 22: Credit for Income Tax Imposed by Government Units Outside Michigan. Include the amount of income tax paid to:

- a nonreciprocal state (see page 13)
- a local government unit outside Michigan, including tax paid to local units located in reciprocal states
- the District of Columbia
- a Canadian province.

Include only income tax paid to another government unit(s) on income earned while you were a Michigan resident and taxed by Michigan.

Be sure to attach a copy of the return filed with the other government unit(s) to your MI-1040.

Do not include taxes paid on income you subtracted on lines 46 - 55 of your MI-1040 (i.e., rental or business income from another state, part-year resident wages, etc.). If you claim credit for Canadian provincial tax, you must file a *Resident Credit for Tax Imposed by a Canadian Province* (form C-4402RC). Attach copies of your *Canadian Federal Individual Tax Return* (form T-1), Canadian form T-4, *Computation of Foreign Tax Credit* (U.S. 1116) and U.S. 1040. Your credit is limited to the portion of your Canadian provincial tax not used as a credit on your U.S. 1040.

22a: Enter the total income tax paid to other government units. Attach a schedule showing the tax paid to each government unit, if you paid tax to more than one source.

22b: Credit amount. If more than one government unit is involved, compute the credit amount for each government unit separately. Then add the individual credit amounts and enter the total on line 22b. Figure your allowable credit as follows:

- Divide your non-Michigan income subject to tax by both states by your total income subject to Michigan tax (line 14); then
- Multiply the amount of tax shown on line 17 by the result.

Your credit cannot exceed the smaller of: 1) the amount of tax imposed by another government, OR 2) the amount of Michigan tax due on salaries, wages and other personal compensation earned in another state. See Example A below.

EXAMPLE A: Computing Michigan resident's credit for tax imposed by a government unit outside Michigan.

Michigan wages	\$18,000.00
Wages earned outside Michigan	12,000.00
U.S. Government bond interest	+ 1,000.00
Adjusted gross income (MI-1040, line 10)	31,000.00
U.S. Government bond interest	- 1,000.00
Total income subject to tax (MI-1040, line 14)	30,000.00
Percent of non-Michigan income to total	40%
Taxpayer has 2 exemptions (2 x \$2,500.00)	-5,000.00
Taxable Income (MI-1040, line 16)	25,000.00
Tax 4.4% (.044) (MI-1040, line 17)	1,100.00
Tax imposed by a governmental unit outside Michigan.	
Enter this amount on your MI-1040, line 22a	700.00
Credit limit is 40% of \$1,100.00.	
Enter this amount on your MI-1040, line 22b	\$ 440.00

Line 23: Enter the college tuition and fees credit from Schedule CT, line 5.

Line 26: CTF..."FIGHT CHILD ABUSE." Your contribution is a key source of funding for child abuse/neglect prevention in your local community. Contributions fund respite care, parent education, pregnancy/newborn support services, support groups, local family resource councils, etc. **Make a difference in the life of a child...enter your contribution of \$10 or more here.** This will increase your tax due or reduce your refund. If you itemize on your federal return, your contribution may be deductible next year. Direct donations may also be sent by check to the Children's Trust Fund, P.O. Box 30037, Lansing, MI 48909.



Line 27: Nongame Wildlife Fund. Please help! Your contribution is the primary source of funding for nongame and endangered animals, plants and their habitats. Butterflies, peregrine falcons, trumpeter swans, frogs, turtles, gray wolves and native wildflowers benefit from your gift. Enter your donation on this line. This will increase your tax due

or reduce your refund. Direct donations may be sent by check to Nongame Wildlife Fund, Natural Heritage Program, P.O. Box 30180, Dept. T, Lansing, MI 48909-7680.

Line 30: Property tax credit information begins on page 14.

Line 31: Farmland preservation credit applies to farmers only.

Line 32: Enter the total Michigan tax withheld from all of your W-2 forms. If applicable, include any credit for repayments under the "Claim of Right." See "Repayments of Income Reported in a Prior Year" on page 13.

Line 33: Payments. Enter the total estimated tax paid with your 1997 Michigan Estimated Individual Income Tax Vouchers (form MI-1040ES), the amount paid with an Application for Extension of Time to File Michigan Tax Returns, and the amount of your 1996 overpayment applied to this year's tax (from 1996 MI-1040, line 38). See **special note** after line 35 instructions.

Line 35: Tax Due. If line 34 is less than line 29, enter the difference. This is the tax you owe with your return. If you owe penalty and interest for late filing, enter these amounts on the appropriate lines. See page 5 "Penalty and Interest Added for Filing or Paying Late" for penalty and interest rates. Add penalty and interest to your tax due and enter the total on line 35. If you owe more than \$500 and are required to make estimated payments, see **special note** below. If the balance due is less than \$1, no payment is required, but you must still file your return. See "Pay" address on page 2 of your MI-1040 form.

Special note for people required to file estimates. You may owe penalty and interest for underpayment, late payment or for failing to pay estimates. Use the *Underpayment of Estimated Income Tax* (form MI-2210) to compute penalty and interest. Because this is a complicated form, you may choose to have Treasury compute your penalty and interest and send you a bill instead of filing the form. You must complete and attach an MI-2210 if you annualize your income. If you file form MI-2210, check the box on line 35a and enter the penalty and interest amounts on the lines provided. For complete instructions, request form MI-2210 by calling 1-800-FORM-2-ME (367-6263).

Line 38: Your Refund. This includes any tax you overpaid and any credits due you. The state does not refund amounts less than \$1. Mail your return to the "Refund or Credit" address on page 2 of your MI-1040 form.

Direct Deposit. Instead of receiving a check, you may request deposit of your refund directly into your account at a financial institution. Complete the *Direct Deposit of Refund* (form 3174) on page 29 and attach it behind your return. See "Attachments" on page 19.

Check the box below line 38 if someone else prepares your return and you DO NOT need a book mailed to you next year. See "Important News for 1997" on page 2.



SIGN YOUR RETURN

Each spouse must sign a joint return. If the preparer is someone other than the taxpayer, he or she must also sign the return and enter the business name and address. Check a box to indicate if Treasury may discuss your return with your preparer.

You must attach all your credit claims and required Michigan and federal schedules (see Table 1, page 5). If you owe tax, enclose your payment, but do not staple it to the return. Checks stapled under the W-2 or to the back of the return may not be seen and may result in improper processing.

Signing a child's return. If a return is prepared for a child who is too young to sign it, a parent or guardian should sign the child's name, then add "by (your name), parent (or guardian) for minor child."

Before mailing, review the list of common errors and mailing instructions on page 3.

PART 3: ADDITIONS TO INCOME

Part-year and nonresidents, complete Schedule NR (see page 31) before proceeding.

Line 39: Enter gross interest, dividends, and income from obligations or securities of states and their political subdivisions other than Michigan. Add this income even if it comes to you through a partnership, S corporation, estate or trust. You may reduce this income by related expenses not allowed as a deduction by Section 265(a)(1) of the IRC.

Line 40: Use Michigan form **MI-1040D** if you have capital gains or losses attributable to: 1) an election to use Section 271 treatment for property acquired before Oct. 1, 1967; 2) the sale or exchange of U.S. obligations which cannot be taxed by Michigan; or 3) the sale or exchange of property subject to allocation provisions.

If you reported gains on U.S. 4797 and acquired the property before October 1, 1967, adjust the gain on Michigan form **MI-4797**.

Instructions are with each form. Enter gains from the Michigan column of your MI-1040D, line 17, or MI-4797, line 18b.

Line 41: Enter losses from a business or losses from property located in another state which you own as a sole proprietor, a partner in a partnership or as a shareholder in an S corporation. If your business is taxed by both Michigan and another state, the loss must be apportioned. Attach a *Schedule of Apportionment* (form MI-1040H).

Line 42: Enter the net loss from the federal column of your Michigan MI-1040D, line 18 or MI-4797, line 18b.

Line 43: Enter the deduction taken for **self-employment tax** on your federal return and for other taxes on or measured by income, such as your share of city income tax paid by partnerships or S corporations, or your share of the taxes paid by an estate or trust.

Line 44: Enter the total of the following (attach a schedule if necessary):

- amount of net operating loss deduction (NOL carryforward) used to reduce AGI (see page 13)
- net loss included in AGI from Michigan gas and oil royalty interest or working interest
- refund received from a Michigan Education Trust (MET) contract. If you deducted the cost of a MET contract in previous years and received a refund from MET during 1997 because the MET contract was terminated and the beneficiary is not attending an institution of higher education, then enter the smaller of:
 - a. the refund you received, **OR**
 - b. the amount of the original MET contract price (including the application and processing fees) which you deducted in previous years.

If you financed your MET contract with a MET-secured loan, deducted the cost of that contract and then defaulted on the loan, enter the amount paid in 1997 by MET to repay the outstanding principal portion of your defaulted loan.

PART 4: SUBTRACTIONS FROM INCOME

Note: Part-year and nonresidents subtract only the applicable amounts included in income attributed to Michigan (column B of Schedule NR) on all lines except line 49.

Line 46: Enter income from U.S. government obligations (Series EE bonds, Treasury notes, etc.), including income from U.S. government obligations received through a partnership, S corporation or trust. This subtraction must be reduced by any interest expense on indebtedness incurred in carrying the obligation and by any related expenses used to arrive at AGI.

Investment companies that invest in U.S. obligations are permitted to pass the tax-free exemption of such holdings to their shareholders. These shareholders are treated as owners of a proportionate share of the fund's assets.

If income from U.S. government obligations exceeds \$5,000, attach a copy of your U.S. *Schedule B* listing the amounts received and the issuing agency.

Capital gains from the sale of U.S. government obligations must be adjusted on Michigan form MI-1040D.

Line 47: Enter compensation received for active duty in the U.S. Armed Forces included in AGI. Include military retirement on line 50.

Note: A Michigan resident who receives compensation from the U.S. Public Health Service may not subtract the income as military pay.

Line 48: Enter the gains from the federal column of your Michigan form **MI-1040D, line 17 and MI-4797, line 18b**. Do not enter amounts from your federal forms. See instructions for line 40.

Line 49: Income Attributable to Another State. Nonresidents and part-year residents, complete Schedule NR. See instructions on page 32. Attach federal schedules.

Business income from an activity that is taxable by Michigan and by another

state must be apportioned. Complete and attach form MI-1040H.

Capital gains from the sale of real property located outside of Michigan must be adjusted on Michigan form MI-1040D.

Michigan residents cannot subtract salaries and wages or other compensation earned outside Michigan. However, you may be entitled to a tax credit for tax imposed by governmental units outside Michigan (see page 7).

Residents may subtract:

- business income derived solely in other states and included in AGI, and
- net rents and royalties from real property located or used in another state.

Line 50: Qualifying retirement and pension benefits that you included in your AGI may be subtracted from income. The amount you may subtract depends on the source of the benefit. Qualifying benefits include:

- pension plans that define eligibility for retirement and set contribution and benefit amounts in advance
- qualified retirement plans for the self-employed
- IRA distributions received after age 59 1/2 or described by Section 72(t)(2)(iv) of the IRC
- benefits paid to a senior citizen (age 65 or older) from a retirement annuity policy which are paid for life (as opposed to a specified number of years)
- benefits from any of the above received as a surviving spouse.

You may subtract **all** pension benefits included in AGI which are received from the following public sources:

- the State of Michigan
- Michigan local governmental units (e.g., Michigan counties, cities and school districts)
- tier 1 and 2 railroad retirements
- federal civil service
- military retirement from the U.S. Armed Forces.

If all retirement and pension benefits were received from public sources listed above, enter the total of all benefits on line 50. Benefits from any other source may be limited. See instructions on page 10 to compute the maximum subtraction.

If all retirement and pension benefits were received from private sources, enter the smaller of:

- the total of all private pensions included in AGI, or
- \$32,880 if you are a single filer, \$65,760 if you are married, filing jointly.

If you received a combination of public and private retirement and pension benefits, follow these steps to compute your deduction:

Step 1: Add all public retirement benefits included in AGI to compute the total amount of all public benefits received.

Step 2: If you are a single filer, deduct the amount in step 1 from \$32,880. If you are married filing jointly, deduct the amount in step 1 from \$65,760.

Step 3: Add all private pensions included in AGI to compute the total amount of all private benefits received.

Step 4: Determine which is smaller, the amount computed in step 2 or the amount computed in step 3.

Step 5: Add the amount computed in step 1 and the amount determined in step 4 together and enter the total on line 50. See Example B on page 11.

You may not subtract:

- Amounts received from a deferred compensation plan that lets the employee set the amount to be put aside and does not set retirement age or requirements for years of service. These plans include, but are not limited to plans under Section 457 and distributed under Section 401(k) of the Internal Revenue Code.
- Amounts received before the recipient could retire under the plan provisions, including amounts paid on separation, withdrawal or discontinuance of the plan.
- Amounts received as early retirement incentives, unless the incentives were paid from a pension trust.

Line 51: Senior citizens (age 65 or older) may subtract interest, dividends and capital gains included in AGI. This subtraction is limited to a maximum of \$3,500 on a single return or \$7,000 on a joint return, and must be reduced by the pension subtraction. See Example C on page 11.

Line 52: Enter only the taxable portion of Social Security benefits included on your U.S. 1040, line 20b, or your U.S. 1040A, line 13b. Do not include your total Social Security benefits.

Line 53: Renaissance zone deduction. To be eligible you must meet all the following requirements:

- Be a permanent resident of a renaissance zone for at least 183 days.
- Must not be delinquent for any state or local taxes abated by the Renaissance Zone Act.
- Must file an MI-1040 each year.
- Have gross income of not more than \$1 million.

If you were a full-year resident of a renaissance zone you may subtract all earned income. Unearned income such as capital gains may have to be prorated. If you lived in the zone at least 183 days during 1997, you may subtract the portion of income earned while a resident of the zone. Complete and attach a Schedule NR to your MI-1040. (See "Special Note" at the end of the Schedule NR instructions.) For additional information regarding qualifications for the renaissance zone deduction call 1-800-367-6263 and request the *Renaissance Zone Information for Individuals* brochure (form 3292). You may also call the Michigan Tele-Help System (1-800-827-4000) and listen to topic #293.

Line 54: You may subtract Michigan state and city income tax refunds and homestead property tax credit refunds that were included in AGI.

Note to farmers: You may subtract (to the extent included in AGI) the amount that your state or city tax refund and homestead property tax credit exceeds the business portion of your homestead property tax credit.

Line 55: Allowable miscellaneous subtractions include:

- Contributions to national or Michigan political parties or candidates. The maximum deduction is \$50 on a single return and \$100 on a joint return.
- Benefits from a discriminatory self-insured medical expense reimbursement plan, to the extent these reimbursements are included in AGI.

• Proceeds and prizes won in State of Michigan regulated bingo, raffle or charity games to the extent included in AGI.

• Amount of salary and wage expense that cannot be deducted on your federal return because you are claiming a work opportunity credit, clinical testing (orphan drug) credit or research credit. Attach a copy of U.S. *Work Opportunity Credit* (form 5884), *Credit for Increasing Research Activities* (form 6765), or *Orphan Drug Credit* (form 8820) to substantiate this subtraction.

• Losses from the disposal of property reported in the Michigan column of Michigan form MI-1040D, line 18 or MI-4797, line 18b.

• Amount used to determine the credit for elderly or totally and permanently disabled from U.S. *Schedule R*, line 19, or U.S. *1040A Schedule 3*, line 19.

• Michigan net operating loss deduction. Attach MI-1045. See page 13.

• Net income included in AGI from Michigan gas and oil royalty interest or working interest.

• If you purchased a MET payroll deduction or monthly purchase contract during 1990, you may deduct the amount paid on that contract during 1997 (not including fees for late payments or insufficient funds). You should receive an annual statement from MET specifying this amount.

• If you purchased a MET contract between 1988 and 1990 with a MET-secured loan and have not previously deducted the total contract price paid, you may deduct the principle amount paid on the secured loan during 1997.

• Amount of taxable benefits the **purchaser** received and included in AGI during 1997 because the MET contract was terminated to attend a private school or out-of-state school, or the beneficiary (student) did not attend school. The beneficiary cannot claim this subtraction.

You may not subtract:

- Itemized deductions from U.S. *Schedule A*.
- Sick pay, disability benefits and wage continuation benefits paid to you by your employer or by an insurance company under contract with your employer.

- Unemployment benefits included in AGI, except railroad unemployment benefits.
- Distributions from a deferred compensation plan received while a resident of Michigan.

- Lottery winnings. (Exception: installment payments from prizes won on or before December 30, 1988 may be subtracted.)

EXAMPLE B: Computing pension deduction.

John and Karen Jones file jointly and received the following income during the 1997 tax year:

Michigan Public School Retirement System	\$12,000
Military Retirement Pay	\$ 8,000
General Motors Retirement Program	\$20,000
IRA Distribution	\$ 4,000

John and Karen are allowed to deduct the entire amount of pension income they receive from public/military retirement systems in determining Michigan taxable income. However, the maximum allowable private pension deduction must be reduced by the amount of public/military pension income claimed as a deduction.

Determining the private pension deduction:

Step 1: Add all public and military retirement benefits together. \$12,000 + \$8,000 = \$20,000

Step 2: Deduct the amount calculated in step 1 from \$65,760
(use \$32,880 if a single filer). \$65,760 - \$20,000 = \$45,760

Step 3: Combine the total amount of private pension income including IRAs. \$20,000 + \$4,000 = \$24,000

Step 4: Determine which is smaller: the amount computed in step 2 or step 3.
The \$24,000 from step 3 is smaller and is the allowable private pension deduction.

Step 5: Determine the total pension deduction by adding the amounts computed in step 1 and step 4.

Total public and military pension income	\$20,000
Total allowable private pension deduction	<u>24,000</u>
Total 1997 pension deduction. Enter on MI-1040, line 50	\$44,000

EXAMPLE C: Senior Citizen Interest, Dividend, Capital Gains Deduction

Joe and Susan are both 67 and file jointly. They received the following income during the tax year 1997:

Capital Gains	\$10,000
Private Pension	\$ 2,000
Social Security	\$ 4,800
Dividends	\$ 500
Interest	\$ 2,000

They may deduct the \$2,000 private pension on their MI-1040 and the senior citizen interest, dividend and capital gains income as shown in steps 1 through 3 below.

Determining the interest, dividend and capital gains deduction:

Step 1: Add all capital gains, dividends and interest income:

Capital Gains	\$10,000
Dividends	500
Interest	<u>2,000</u>
Total	\$12,500

Step 2: Subtract private pension from the maximum capital gains, dividends and interest deduction of \$7,000 for joint filers (\$3,500 for single filers).

Maximum Deduction Amount	\$ 7,000
Less Private Pension Subtraction	<u>(2,000)</u>
Total	\$ 5,000

Step 3: Total interest, dividend and capital gains deduction is the smaller of the calculation from step 1 or step 2; \$5,000 is the allowable deduction. Enter this amount on MI-1040, line 51.

Information About Special Situations

EXTENSIONS

To request more time to file your Michigan tax return, send a payment of your estimated annual liability to Treasury with a copy of your approved federal extension (U.S. 4868) on or before the original due date of your return. Treasury will extend the due date to your new federal due date. If you do not have a federal extension, file an *Application for Extension of Time to File Michigan Tax Returns* with your payment. Treasury will not notify you of approval. Do not file an extension if you will be claiming a refund.

An extension of time to file is not an extension of time to pay. If you underestimate the tax due and do not pay enough with your extension request, you must pay interest on the unpaid amount. Compute interest from the due date of the annual return. Interest is 1 percent above the prime rate and is adjusted on July 1 and January 1.

You may be subject to a penalty of 10 percent or more if the balance due is not paid with your extension request.

When you file your MI-1040 return, include on line 33 the amount of tax you paid with your extension request. Attach a copy of your federal or state extension to your return.

1998 ESTIMATE PAYMENTS

Usually, you must make estimated income tax payments if you expect to owe more than \$500 when you file your 1998 MI-1040. This is after crediting your property tax and farmland preservation credits and amounts you paid through withholding.

Common income sources which make estimate payments necessary are:

- self-employment income
- salary and wages if you do not have enough tax withheld
- tips
- retirement income
- unemployment benefits
- dividend and interest income
- income from the sale of property (capital gains)
- rental income.

You may ask your employer to increase your withholding to cover the taxes on other types of income.

Estimated payments are due April 15, 1998; June 15, 1998; September 15, 1998 and January 15, 1999. If you are a fiscal-year filer, the due dates are the same as your federal estimated payment due dates.

If you filed estimates for 1997, Treasury will send you personalized forms for 1998. Otherwise, request form MI-1040ES (see page 3).

Farmers, fishermen or seafarers may have to pay estimates, but have different filing options. If at least two-thirds of your gross income is from farming, fishing or seafaring, you may:

- delay paying your first 1998 quarterly installment (with form MI-1040ES) until as late as January 15, 1999 and pay the entire amount of your 1998 estimated tax due then, **OR**
- file your 1998 MI-1040 return and pay the entire amount of tax due on or before March 2, 1999.

You are considered a farmer or fisherman if you are required to file U.S. *Schedule F* or *Schedule C*. Wages earned as a farm employee or from a corporate farm do not qualify you for this exception. You are considered a seafarer if you meet

the criteria for wages that cannot be withheld for taxes in Title 46, Shipping, USC, Sec. 11108.

Exceptions: If you owe more than \$500 you may not have to make estimate payments if you expect your 1998 withholding and credits to be at least:

- 90 percent of your total 1998 tax, **OR**
- 100 percent of your total 1997 tax. **Note:** Total 1997 tax is the amount on 1997 form MI-1040, line 25, less the amount on lines 30 and 31.

RESIDENCY

Resident. You are a Michigan resident if Michigan is your permanent home. Your permanent home is the place you intend to return to whenever you go away. A temporary absence from Michigan, such as spending the winter in a southern state, does not make you a part-year resident.

Income earned by a Michigan resident in a nonreciprocal state or Canadian province is taxed by Michigan, and may also be taxed by the other jurisdiction. If you pay tax to both, you can claim a credit on your Michigan return. See instructions for line 22 and Example A on pages 7 and 8.

Part-year resident. You are a part-year resident if you move your permanent home into or out of Michigan during the year. You must pay Michigan income tax on income you earned, received or accrued while living in Michigan.

Use Schedule NR and the following guidelines to help you figure your tax.

- Allocate your income from the date you moved into or out of Michigan.
- Bonus pay, severance pay, deferred income and any other amount accrued while a Michigan resident are subject to Michigan tax no matter where you lived when you received it.
- Deferred compensation and dividend and interest income are allocated to the state of residence when received.
- Part-year residents who lived in Michigan at least six months of the tax year may qualify for a homestead property tax credit. See information on page 15.

Nonresident. Use Schedule NR to help you figure your tax. You must pay Michigan income tax on the following types of income earned in Michigan:

- salary, wages and other employee compensation for work performed in Michigan, unless you live in a state covered by a reciprocal agreement. (See "Reciprocal States" on page 13.)
- net rents and royalties from real and tangible personal property in Michigan.
- capital gains from the sale or exchange of real property located in Michigan, or of tangible personal property located in Michigan.
- patent or copyright royalties if the patent or copyright is used in Michigan or if you have a commercial domicile in Michigan.
- income (including dividend and interest income) from an S corporation, partnership or an unincorporated business or other business activity in Michigan.

RECIPROCAL STATES

ILLINOIS, INDIANA, KENTUCKY, MINNESOTA, OHIO and WISCONSIN have reciprocal agreements with Michigan that exempt nonresidents from income taxes imposed by each state on salaries, wages and other employee compensation. Michigan residents pay only Michigan income tax on their salaries and wages earned in any of these states. A Michigan resident can file a withholding form with an employer in a reciprocal state to claim exemption from that state's income tax withholding. The out-of-state income might make Michigan income tax estimate payments necessary. Some employers in reciprocal states will withhold Michigan income tax from salaries and wages they pay to Michigan residents. Residents of reciprocal states working in Michigan do not have to pay Michigan tax on salaries or wages earned in Michigan but do have to pay Michigan tax on business income derived from business activity in Michigan. A resident of a reciprocal state who claims a refund of Michigan withholding tax must file a *Michigan Nonresident and Part-Year Resident Schedule* (Schedule NR).

DECEASED TAXPAYERS

The estate of a taxpayer who died in 1997 (or 1998 before filing a 1997 return) must file if the taxpayer owes tax or is due a refund. A full-year exemption is allowed for a deceased taxpayer on the 1997 MI-1040 or MI-1040EZ. The surviving spouse or the personal representative may file the return.

The surviving spouse may file a joint return for 1997. Write your name and the deceased's name and both Social Security numbers on the MI-1040. Write "deceased" after the decedent's name. You must report the decedent's income. Sign the return. In the decedent's signature block, write "Filing as surviving spouse" and the decedent's date of death.

If you filed your federal returns as "married filing separately," you may file your Michigan returns the same way.

If, as a personal representative, you are claiming a refund for the decedent, you must attach a *Statement of Person Claiming a Refund Due a Deceased Taxpayer* (U.S. 1310) or *Michigan Claim for Refund Due a Deceased Taxpayer* (MI-1310). Enter on line 1 of the decedent's return the decedent's name and your name in the following order:

John Brown, Estate of
Jane Brown, Rep.

Use the decedent's Social Security number and your address. Enter the date of death in the signature block.

See the "Deceased Claimant" instructions for forms MI-1040CR and MI-1040CR-2 for information about filing a credit claim for a deceased taxpayer.

AMENDED RETURNS

If you made a mistake on a return previously filed, correct it by filing an *Amended Michigan Individual Income Tax Return* (MI-1040X). If your amended return computes to a refund, you must file it within four years of the due date of your original return.

If a change on your federal return affects Michigan taxable income, you must file an MI-1040X with Michigan Treasury within 120 days of the change. Include payment of any tax and interest due. If you have overpaid, use this form to request a refund.

You can also amend a homestead property tax credit or farmland preservation credit claim by filing a revised claim form clearly marked "amended." Attach a completed MI-1040X to the front of the amended credit form.

NET OPERATING LOSSES

The computation of a Michigan net operating loss (MNOL) and a Michigan net operating loss deduction (MNOLD) are revised for 1997. The deduction for a carryback or carryforward of a net operating loss is no longer limited to federal modified taxable income (FMTI). The FMTI limitation for household income, however, is still in effect.

If you have a federal net operating loss deduction, you must add back the federal deduction on your MI-1040, line 44, to the extent included in federal adjusted gross income. Compute your MNOL and MNOLD by completing an *Application for Michigan Net Operating Loss Refund* (form MI-1045).

To claim a refund for a carryback deduction, you must file both an MI-1045 and MI-1040X for each year affected. Returns for tax years affected by carryforward deductions must have form MI-1045 attached to substantiate the deduction.

REPAYMENTS OF INCOME REPORTED IN A PRIOR YEAR

If you had to repay an amount of money in 1997 which you claimed as income in a previous year because you thought you had an unrestricted right to it (e.g., unemployment benefits), you may be entitled to a credit on your 1997 return for the tax paid in an earlier year.

If the amount of the repayment is deducted on U.S. *Schedule A* or a credit is claimed on U.S. *1040*, line 59, a credit will be allowed on the Michigan return. If the repayment is deducted in arriving at AGI, no additional credit is allowed on the Michigan return because your income for the year is already reduced by the repayment amount.

To compute your Michigan credit, multiply the amount you repaid in 1997 by the tax rate which was in effect the year you previously paid the tax. Then add the amount of the credit to the Michigan tax withheld on line 32 of your MI-1040. Write the words "Claim of Right/Repayment" next to line 32.

Attach a schedule showing the computation of the Michigan credit, proof of the repayment, and the portion of your federal return reflecting the deduction or credit claimed under the "Claim of Right" to your MI-1040.